HSZ China Fund

Newsletter October 2010

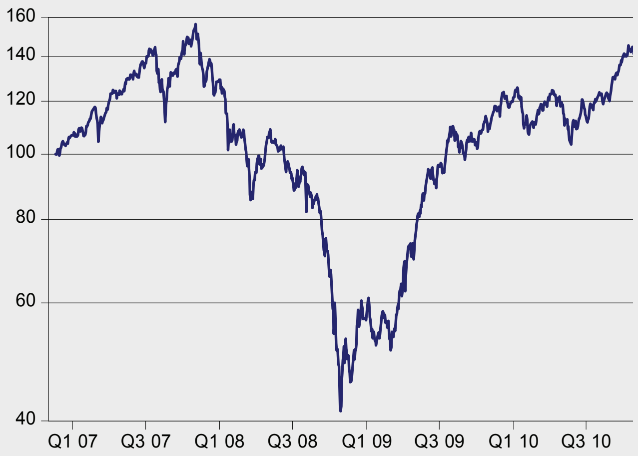
- China's growth sees jump in the third quarter
- Strong smartphone shipment continues to fuel AAC's sales growth
- Weichai benefits from robust demand for heavy duty trucks
- Merchants Bank sees continued margin expansion

Figures as of October 29, 2010

Net Asset Value

Per Share: USD 142.11, CHF 112.35, EUR 131.74
Market Capitalization: USD 122.0 million

Share Price in USD since Nov 17, 2006



Performance

	October	YTD	1Y	Nov 17, 06
USD-Class	+1.5%	+16.8%	+28.9%	+42.1%
CHF-Class	+2.3%	+11.5%	+24.8%	+12.4%
EUR-Class	-0.7%	+21.2%	+37.8%	+31.7%

Largest Holdings

Weichai Power	5.6%
China Merchants Bank	5.4%
Lonking Holdings Ltd	5.1%
Sounds Global Ltd	5.0%
Ports Design	4.7%
Anta Sports Products Ltd	4.6%

Exposure

Consumer Discretionary	34.0%
Industrials	30.8%
Financials	18.3%
Consumer Staples	8.4%
Energy	4.0%
Cash	4.5%

China's headline GDP grew 9.6 percent in the third quarter from a year earlier, slowing from the 10.3 percent expansion in the preceding period. On an annualized, seasonally adjusted basis, the estimated sequential growth was 10 percent quarter on quarter, picking up from the trough of 8.3 percent in the second quarter. CPI inflation was at an elevated level of 3.6 percent year on year in September, mainly driven by the heightened food inflation. For the first time in three years, the People's Bank of China raised the benchmark interest rates on October 19 with a view to managing inflation expectations and easing the impact of negative real interest rates. The move by the central bank shows the confidence of the government in the strength of the economy despite the uncertainties in the advanced economies.

AAC Acoustic's revenue for the first three quarters was CNY 2.3 billion, increased by 52 percent year on year. Top three products by sales were speakers, speaker boxes and receivers which accounted for 26 percent, 20 percent and 20 percent of the total revenue respectively. Gross margin and operating margin continued to expand by 0.5 and 0.4 percentage points year on year to 45.5 percent and 32.9 percent respectively. Earnings per share for the third quarter grew 33 percent quarter on quarter to CNY 0.23. Smartphones, acoustic components for tablets and e-books will be the key drivers to fuel sales growth in 2011.

Weichai's net sales increased by 84 percent year on year to CNY 46'683 million in the first nine months on the robust domestic demand for heavy duty trucks due to the rapid growth in fixed asset investment and the strong mining activities. Gross margin rose 4.1 percentage points quarter on quarter to 32.2 percent benefiting from a decline in raw material costs. Operating margin rose 1 percentage point year on year to 14 percent as a result of scale advantages and better cost control. Weichai's net profit for the first nine months increased by 102 percent year on year to CNY 4'801 million, implying earnings per share of CNY 5.76, under Chinese Accounting Standards.

China Merchants Bank announced that its net profit for the first three quarters this year rose 57 percent to CNY 20.6 billion. The rise in profit was attributed to the continued net interest margin expansion, growth in interest and non-interest income as well as lower credit costs. The non-performing loan (NPL) balance was down to CNY 8.8 billion with NPL ratio further edging down to 0.64 percent. Management indicated that lending to local government financing vehicles (LGFV) amounted to CNY 130 billion, representing 10 percent of the total loan book. 98 percent of the LGFV loan is fully covered by revenue generated by projects and collaterals and the NPL ratio is only 0.1 percent.

General Information

Characteristics

Fund Name	HSZ China Fund
Structure	Open-end Swiss investment fund, "Kategorie: Übrige Fonds"
Approved	August 2006 by Swiss Financial Market Supervisory Authority
Launch	November 2006
Fund Volume	Launched at USD 130 million
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
ISIN, Valor USD-Class, WKN	CH0026828035, 2682803, A0LC13
ISIN, Valor EUR-Class, WKN	CH0026828092, 2682809, A0LC14
ISIN, Valor CHF-Class, WKN	CH0026828068, 2682806, A0LC15
Issue price (all classes)	100
Distributions	Income annually
Issuance/Redemption	Daily
Management Fee	1.5% annually
Performance Fee	10% above hurdle rate of 5%, high water mark
Issuance Fee	Maximum 5%
Redemption Fee	None

Information

Prospectus/By-Laws	Available upon request
Publication of NAV (daily)	www.hszgroup.com www.falconpb.com Neue Zürcher Zeitung (NZZ)
Bloomberg	HSZCHID SW Equity HSZCHEU SW Equity HSZCFCH SW Equity
Monthly Reports	Subscription
Fund Administrator	Falcon Fund Management (Switzerland) Ltd.
Custodian Bank	Falcon Private Bank Ltd.
Investment Manager	HSZ Group
Main Distributor	Falcon Fund Management (Switzerland) Ltd.
Auditors	PricewaterhouseCoopers Ltd.
Subscriptions	All Banks

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Investment Opportunity

Once the world’s largest trading power, China's gradual decline during the second millennium culminated in the Maoist purgatory. However, since the 1980s economic development has taken center stage. China has become the engine of the fastest growing region in the world attracting substantial foreign investments and developing into the world's manufacturing hub. Furthermore, an increasing middle class is fuelling demand for consumer products. The growth momentum is set to continue as China strives to catch up with mature economies, producing attractive investment opportunities.

Investment Strategy

The objective of HSZ China Fund is to create sustained shareholder value by acquiring and managing equity and equity-linked investments in a select number of high-quality companies that are rooted in China. At least two-thirds of the total assets are to be invested in companies which are domiciled in China or participate as holding companies in enterprises domiciled there. At most one-third of the total fund volume can be invested in equity oriented stocks and money market instruments of issuers worldwide. Based on fundamental analysis and a bottom up approach, investment opportunities are identified that are assessed to provide above-average return on invested capital, have strong earnings per share growth and are priced attractively.

Risk Management

The Chinese stock market has many of the particular risks and characteristics of emerging markets. HSZ Group exerts itself for reducing specific risks by accurately screening and monitoring high quality assets. That is why the long-lived experience of its specialists based locally is invaluable for investors. The fund is well diversified by investing in at least 15 companies. Each position represents a weight of between 5 to 10% of total assets with a maximum limit of 15%. No portfolio leverage is employed. The fact that HSZ China Fund invests in listed equity provides the investor with a reasonable degree of liquidity.

Investment Manager

HSZ Group is a Hong Kong based independent investment management company. Its investment team has been managing Asian equity portfolios since 1994.